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APPLICATION OF SOUTHWESTERN §
ELECTRIC POWER COMPANY FOR §
AUTHORITY TO CHANGE RATES §

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS


**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
PUBLIC UTILITY COUNSEL'S TENTH REQUEST FOR INFORMATION**

MARCH 10, 2021

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Files provided electronically on the PUC Interchange

 OPUC_10-1_Attachment_1

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Question No. 10-1:

Please refer to Schedule B-1.5.9, sponsored by Mr. David A. Hodgson. Please confirm or deny that the remaining balance of the protected excess deferred income taxes for SWEPCO is included in line 6 of this schedule. If confirm, please provide a detailed explanation as to why the balance of protected excess deferred income taxes has been netted out and is not included as a deferred liability when determining the rate base on which a return is requested. If deny, provide the line item that includes the remaining balance of protected excess income taxes and demonstrate how this balance affects the requested rate base.

Response No. 10-1:

Line 6 of Schedule B-1.5.9 includes the sub-accounts that were used in the re-measurement of ADFIT as a result of the tax rate change with the Tax Cuts and Jobs Acts as well as the sub-accounts with the ADFIT associated with any timing differences that are tracked using the flow-through method of accounting. The excess deferred income taxes are included as a rate base reduction within the balance reflected on Line 5 of Schedule B-1.5.9. The protected excess deferred income taxes specifically are a component of the balance on Lines 2 and 3 – FERC accounts 281 and 282.

The balance on Line 6 is netted out with the balance on Line 7 to illustrate that the re-measurement of ADFIT was offset by a regulatory liability and had a neutral impact on rate base. Because these lines also include the ADFIT and regulatory asset/liabilities associated with flow-through timing differences, it also illustrates that there is no rate base impact resulting from those timing differences.

OPUC 10-1 Attachment 1 provides an illustration of the tax accounting that would occur to re-measure ADFIT balances as a result of a tax rate change from 35% to 21% and indicates the lines on which balances would be presented on Schedule B-1.5.9.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

EXAMPLE ACCOUNTING FOR THE REMEASUREMENT OF ADFIT AS A RESULT OF THE TAX CUTS AND JOBS ACT (TCJA)

Cumulative Timing Difference (100,000)

	Pre TCJA Remeasurement	TCJA Remeasurement	Post TCJA Remeasurement	
ADFIT - 282.1	(35,000)	0	(35,000)	Represented within the balance on Schedule B-1.5.9 Line 5
ADFIT - 282.4	0	14,000	14,000	} Represented within the balance on Schedule B-1.5.9 Line 6
ADFIT - 190.4 (Gross-up)*	0	3,722	3,722	
ADFIT - TOTAL	(35,000)	17,722	(17,278)	
Reg. Liability - 254.4	0	(17,722)	(17,722)	Represented within the balance on Schedule B-1.5.9 Line 7
Total Rate Base	(35,000)	0	(35,000)	

Tax Rate Prior to TCJA: 35%
Tax Rate after TCJA: 21%

* Example using gross-up for federal only

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Question No. 10-2:

Please refer to Schedule G-7.4b, sponsored by Mr. David A. Hodgson. Please provide the line item that includes the SWEPCO per book and adjusted balances of protected excess deferred income taxes. Also, please include a statement as to whether the amounts reported in the line item include the gross up for taxes.

Response No. 10-2:

Protected excess deferred income taxes are included as a component of Lines 69 and 71 on Schedule G-7.4b. These balances do not include the gross up for taxes. The gross up for taxes is included on Line 67.

Prepared By: Jessica M. Criss

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Question No. 10-3:

Please refer to SWEPCO's response to OPUC RFI No. 3-10, sponsored by Mr. David A. Hodgson. Please confirm or deny that the Texas jurisdictional protected excess deferred income tax liability of \$121,725,475 is included in the case as a deduction to rate base. If deny, provide an explanation for the exclusion from rate base. If confirm, please provide the rate base line item where this amount has the impact of reducing rate base.

Response No. 10-3:

The deduction to rate base for protected excess deferred income taxes is included on Lines 71 and 74 of Schedule G-7.4 on a total, non-jurisdictional basis. These excess ADFIT balances are included in the total ADFIT rate base reduction presented on Schedule B-1.1 Line 27. Schedule B-1.1 Line 27 presents both the total company and Texas jurisdictional rate base reduction from ADFIT.

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